THE

# CAUSES AND CONSEQUENCES

OF THE

## PRESSURE UPON THE MONEY-MARKET;

WITH A

STATEMENT OF THE ACTION

OF THE

## BANK OF ENGLAND

FROM

*1st October*, 1833, *to the 27th December*, 1836.

BY J. HORSLEY PALMER, ESQ.



LONDON:

PELHAM RICHARDSON, 23, CORNHILL.

1837.

LONDON:

PRINTED BY W. MARCHANT, INGRAM-COURT,
FENCHURCH-STREET.

# THE CAUSES,

ETC. ETC.

---

There is no subject of inquiry more interesting and important to the whole community than that which relates to the due regulation of our monetary system, which has been for many years past in a continued state of fluctuation. The principle maintained during the war ending in 1815 has been long since exploded, and we are not likely to see a second resolution of the House of Commons, declaring that a one-pound note and a shilling are equal in real value to a guinea of full weight, at a time when the paper-money of the country is depreciated 12 or 13 per cent. So far have we advanced in knowledge; but some remarkable errors

have pervaded and still continue to influence the public mind as to the mode of maintaining the value of paper-money. Whether the period be now arrived for getting rid of these it may be difficult to state; the subject, however, is one of so much interest that the writer of the present observations trusts he may stand excused in thus trespassing upon public attention while he attempts to develope the principal facts bearing upon the subject now under inquiry, that have occurred within his observation during the last three years. Some good may, perhaps, arise from their promulgation. He hopes that it may tend to the amendment of a system, which, if persisted in, can hardly fail of multiplying all the evils resulting from those variations of the currency to which we have latterly been exposed.

The conduct of the Bank of England from the year 1819 to the present time is before the public. The events which seemed to have led to the panic of 1825 were attempted to be explained, by the author of this tract, in evidence given before the Committee of the House of Commons upon the renewal of the Bank Charter in 1832; when he further endeavoured to shew that the almost total drain

of coin from the Bank in December 1825, which endangered the credit of that establishment, was occasioned solely by the discredit of private paper-money, particularly of that part below the denomination of £5. It was also shewn in that evidence that the policy pursued by the Bank subsequent to the withdrawal of the £1 and £2 notes in England and Wales, had been to maintain their securities as nearly as possible at a fixed amount, and to allow the contraction of the currency, effected by the return of bank-notes for bullion, gradually to proceed until the value of the paper-money remaining in circulation was so far increased as to occasion the return of that specie to the Bank which might have been exported, and thus to replace the currency upon a level with that of other countries. That system had appeared to work satisfactorily and without any forced action on the part of the Bank in contracting its circulation. It was tried upon the change of government in France in July, 1830, when credit throughout that kingdom was shaken to its foundation. At that period the Bank of England was possessed of about twelve millions of bullion. Immediately upon the events referred to taking place, the currency of

England exhibited an excess compared with that of France and other parts of Europe. The consequence of that derangement between the currencies of this and other countries was a continued diminution of the bullion held by the Bank from July, 1830, to February or March, 1832, when the increased value of money in England and the gradual restoration of credit upon the Continent gave a favourable turn to the foreign exchanges; which continued in our favour till the autumn of 1833, at which time the bullion in deposit at the Bank amounted to nearly eleven millions. At this period an exportation of the precious metals again commenced, from causes that will hereafter be explained, as well as the reason why that system which appeared to adjust itself so satisfactorily from 1830 to 1832 failed from 1833 to 1836; for, although during the former period the bullion in the Bank was diminished from twelve millions to five millions, yet in the progress of this reduction, as there was no excitement, and no undue credit given by the banks in the interior of the country, the interest of money gradually rose from 2½ to 4 per cent. per annum for first-rate commercial paper; and then, without discredit or distrust of any kind, the bullion returned into the

coffers of the Bank, and money nearly resumed its former value, the rate of interest having gradually fallen from 4 to $2\frac{3}{4}$ per cent. in July, 1833.

But before proceeding further, it is necessary to allude to the rise and progress of Joint-Stock Banks in England, Wales, and Ireland. Scotland having, fortunately for that part of the empire, kept itself free from the mania for the extension of these companies, it is unnecessary particularly to allude to the proceedings of its banks.

Immediately subsequent to the panic of 1825, which affected almost every banking establishment in London as well as the country, the Government of that day was unfortunately induced to call upon the Bank of England to relinquish, beyond sixty-five miles from London, its exclusive privilege as to the number of partners authorized by law to be associated for the formation of Banks, in order to enable Ministers to frame regulations authorizing the establishment of Joint-Stock Banks throughout all parts of the country beyond the limit above specified, thereby virtually declaring that the existing private banks were unworthy of credit. The term "unfortunately" is used; for perhaps there

never was a measure more uncalled for by the wants of the community. The existing system was intimately connected with the prosperity of the country, and was good in all its parts, excepting the power of issuing paper-money ad libitum. The change in question laid the foundation of a new system to be brought into the field by competition in the issue of paper-money, the most prejudicial means that could be devised. A reluctant concession was obtained from the Bank; and in order to place the whole subject before the public, the correspondence which then took place between the Government and the Bank is annexed to the present statement. Very little progress was made in the formation of those projected institutions prior to the year 1830, when a further application was made by Government to the Bank for concessions intended to have formed part of the conditions at that time for the renewal of the Charter. The opinion of the Bank remained unchanged as to the danger to be apprehended from the extension of the system of Joint-Stock Banks, and this opinion was pressed upon the Government at that period. The Ministry under the Duke of Wellington having soon after been dissolved, no

further discussion of the subject took place until the negotiation under the Government of Earl Grey, which terminated in the renewal of the Charter of the Bank in 1833. Pending the discussions which then took place the strongest representations were verbally made to Earl Spencer (then Chancellor of the Exchequer), of the necessity of placing Joint-Stock Banks of Issue under some regulations to be proposed by His Majesty's Government, which might tend to a prevention of excess in their issues of paper-money. It is well known that that noble Lord was desirous of submitting such regulations for the consideration of Parliament; but these he was prevented from carrying into effect. The system of Joint-Stock banking was further facilitated by permitting the formation of direct agencies in London; and a declaratory clause was inserted in the Bank Charter Act authorizing the establishment of those bodies in the metropolis. It is conceived that the Bank had the more reason to complain of the Ministers' proceeding upon that occasion, it having been distinctly understood during the negotiation, that the law affecting the formation of Banks within sixty miles of London should remain untouched, and upon the faith of that understanding Earl Spencer

undertook to bring the Bill into the House of Commons for the renewal of the Charter of the Bank.

Having thus briefly stated the proceedings which have occurred in the establishment of Joint-Stock Banks prior to the renewal of the Charter of the Bank of England, it may, perhaps, be proper to state the periods of the increase of those of Issue from the year 1826: they are as follow, taken from returns furnished by the Stamp-Office.

IN ENGLAND AND WALES,

| | | |
|---|---|---|
| 1826, | were established | 3 |
| 1827, | ,, | 4 |
| 1828, | ,, | nil |
| 1829, | ,, | 7 |
| 1830, | ,, | 1 |
| 1831, | ,, | 8 |
| 1832, | ,, | 7 |
| 1833, | ,, | 10 |
| 1834, | ,, | 11 |
| 1835, | ,, | 9 |
| 1836, | from 1st January to 26th November | 42 |
| | Total | 102 |

IN IRELAND

| | |
|---|---|
| There were formed prior to 1834 | 3 |
| In 1835 | 2 |
| 1836 | 8 |
| Total | 13 |

Until the year 1833 the action of the Banks, as already stated, appears to have been perfectly regular. From that period the increase in the

number of Joint-Stock Banks, in England and Wales, to the 26th November last, has been seventy-two, and in Ireland ten, making an aggregate of eighty-two, exclusive of their innumerable branches formed in almost every town in the two kingdoms, which are, in fact, equivalent to so many additional banks.

It next remains to be shewn what was the amount of paper-money in circulation in England and Wales, and Ireland, other than that issued by the Banks of England and Ireland. The average in England and Wales on the 29th March, 1834, was £10,200,000, and in June, 1836, £12,200,000. In Ireland the average in June, 1834, was £1,300,000, and in June, 1836, £2,300,000. In both cases the greatest extension took place within the last year. It thus appears that there was a total increase in this portion of the paper-money of the two kingdoms, in 1836, over 1834, of no less than *three millions*, or more than 25 per cent.

There was no material fluctuation in the circulation of the Bank of Ireland; it therefore is only requisite to state the particulars of the issues of the Bank of England at the two periods referred to.

The liabilities and assets of the Bank on the

1st October, 1833, upon an average of the three preceding months were,—

| | | | |
|---|---|---|---|
| Circulation .... | £19,800,000 | Securities ...... | £24,200,000 |
| Deposits ...... | 13,000,000 | Bullion ........ | 10,900,000 |

On the 27th December, 1836, the bullion upon a similar average was £4,300,000, shewing a reduction of £6,600,000. The circulation was then £17,300,000, and the deposits, excluding those of a temporary character (4½ millions), were £9,200,000; the diminution of the two, taken together, having been £6,300,000, the difference between this amount and the loss of bullion being found in the increase of securities held by the Bank.

In every quarter succeeding the 1st October, 1833, with two very trifling exceptions not worth notice, the reduction in the circulation and deposits was larger than the progressive diminution of bullion required.

It may here perhaps be as well to explain the nature of what are termed extra deposits, in order to shew that they are independent of the regular working of the Bank. They have consisted of money belonging either to Government or the East India Company, altogether independent of

their ordinary transactions. The first arose out of the contract for the West India Loan, upon which a discount was allowed for prompt payment higher than the market rate of interest; and as the prompt payments thus made were not required for issue to the West India claimants for several months afterwards, it became necessary, in order to preserve the currency in the same state as if the payments for the loan had not taken place, and to prevent its undue contraction, to re-issue the money to the public. This was done by contract with the money-dealers, so as to ensure its return to the Bank at the time of the adjustment being made with the claimants by the Commissioners. It ought further to be borne in mind, that during the whole period of those loans the foreign exchanges were high, increasing the quantity of gold in the coffers of the Bank to a considerable extent—a circumstance which would have rendered it quite unjustifiable for the Bank to have permitted a contraction of the currency by the prompt payments on account of the Loan, and an advance in the rate of interest to have been thus unnecessarily and forcibly effected to the detriment of the commerce of the country.

The second case was that of the East-India

Company realizing their commercial assets to an extent far exceeding their ordinary wants for payment. Upon the commencement of the accumulation, to the extent of £600,000 or £700,000 above their ordinary balances, an application was made to the Bank to ascertain whether it would undertake the risk of lending the money, paying to the Company a given rate of interest; if declined, the Company were prepared to lend it themselves, having received offers from some of the principal money-dealers to take it. The question, therefore, simply was, whether the notes should be paid away by the East-India Company or the Bank? It never could be expected that the Bank should be required to pay a rate of interest for notes or bullion belonging to others, merely for the sake of keeping them unemployed: having at the same time no excess beyond the 24¼ millions of securities, which the ordinary working deposits and circulation entitled that body to hold. Hence it is evident, that in the first case the Bank was, for the benefit of commerce, required to reissue the monies received on account of the West-India Loan, and that in the second, if the Bank had not consented to advance the money, the East-India Company would have lent it themselves.

The only point, therefore, was one of management, viz. to keep the currency from undue fluctuation, and to insure the return of the notes from the market at the periods when the Government and the Company required them for issue in the same direction, which was effected to the letter.

The contraction of Bank-notes, exhibited in the comparative statement, between October, 1833, and December, 1836, applies to the aggregate circulation of the Bank, both in *London* and the *country*, whereas that of London alone ought to be brought under review. It will appear, from the following account, that the contraction has been *in London* three millions from the amount in circulation in October, 1833, which with the deposits makes the actual reduction of the London liabilities £200,000 more than the diminution of Bullion exhibited in the quarter ending December last. The subjoined statement embraces the *separate* issues in London and the Branch Banks every quarter, from October, 1833, to December, 1836, each return being calculated upon the average of the thirteen preceding weeks. It will be thus seen that the increase of the Branch Bank issues was virtually so much withdrawn from London, the Bank not having

increased its amount of securities previously existing until the quarter ending 27th September last, when the pressure was commencing consequent upon the advance in the rate of interest. The object of this account is to shew that every means were taken by the Bank to prevent its being chargeable with an over-issue. On the contrary, the increase of issue by the Branch Banks having been occasioned by agreements, substituting their notes for those of Country Banks withdrawn, shews, that to that extent an earlier contraction was effected in London than would otherwise have taken place. It further shews that the amount of Country Bank issues withdrawn, places the excess of the other issuing bodies in a still more unfavourable light by very nearly half a million.

ISSUES OF THE BANK OF ENGLAND.

| | | | |
|---|---|---|---|
| 1833. | | | |
| Oct. 1. | London | 16,500,000 | |
| | Branch Banks | 3,300,000 | |
| | | | 19,800,000 |
| Dec. 31. | London | 15,000,000 | |
| | Branch Banks | 3,200,000 | |
| | | | 18,200,000 |
| 1834. | | | |
| Apr. 1. | London | 15,800,000 | |
| | Branch Banks | 3,200,000 | |
| | | | 19,000,000 |

| | | | |
|---|---|---|---|
| July 1. | London | 15,700,000 | |
| | Branch Banks | 3,200,000 | |
| | | | 18,900,000 |
| Sept. 30. | London | 15,800,000 | |
| | Branch Banks | 3,300,000 | |
| | | | 19,100,000 |
| Dec. 30. | London | 14,800,000 | |
| | Branch Banks | 3,300,000 | |
| | | | 18,100,000 |
| 1835. | | | |
| Mar. 31. | London | 15,200,000 | |
| | Branch Banks | 3,300,000 | |
| | | | 18,500,000 |
| June 30. | London | 15,000,000 | |
| | Branch Banks | 3,300,000 | |
| | | | 18,300,000 |
| Sept. 29. | London | 14,900,000 | |
| | Branch Banks | 3,300,000 | |
| | | | 18,200,000 |
| Dec. 29. | London | 13,800,000 | |
| | Branch Banks | 3,400,000 | |
| | | | 17,200,000 |
| 1836. | | | |
| Mar. 29. | London | 14,400,000 | |
| | Branch Banks | 3,600,000 | |
| | | | 18,000,000 |
| June 28. | London | 14,200,000 | |
| | Branch Banks | 3,700,000 | |
| | | | 17,900,000 |
| Sept. 27. | London | 14,500,000 | |
| | Branch Banks | 3,600,000 | |
| | | | 18,100,000 |
| Dec. 27. | London | 13,500,000 | |
| | Branch Banks | 3,800,000 | |
| | | | 17,300,000 |

Having thus stated the action of the different bodies through which the extension and contraction of the paper money of England and Ireland have been effected from the year 1833 to the present time, it may be now expedient to shew the causes which appear to have occasioned the reduction in the circulation of the Bank of England. It is the more important to submit these causes to the notice of the public, as they seem in no degree to have arisen from overtrading or any undue speculative advance in commercial prices: occurrences of that nature tend to produce an unfavourable foreign exchange, an evil only to be remedied by that contraction of the circulation which eventually restores prices and currency to a level with those existing in foreign countries. If, therefore, upon reference being made to the state of the foreign exchanges during the period to which the inquiry relates, it be found that no material derangement existed, our attention is naturally directed to the consideration of the other causes that have occasioned the demand upon our metallic currency. In order to establish the position that the commercial exchanges were not against England, it may be right to refer to the increase or decrease of gold at the

Bank, from which alone any correct inferences are to be drawn as to the state of our currency in comparison with that of foreign countries.

The first period may be taken from October 1833, to April 1835, during almost the whole of which time there was a continued purchase of gold by the Bank, at £3 : 17 : 9 per oz. ; the exchange on Paris never fell below 25.35 for short paper, and the premium upon gold remained in Paris at about 9 per mille, thus shewing that during that period there was no demand upon the Bank for bar-gold, and no *profit* upon the export of that metal or the gold coin of the realm.

The second period was from April 1835 to April 1836, during the whole of which time the foreign exchanges were considerably higher than during the preceding eighteen months, and consequently the influx of gold correspondingly increased at the Bank.

The third and last period is that from April to December of the past year, during the whole of which time the foreign exchange on Paris was seldom under 25.35 ; the premium upon gold, however, was for a short time as high as 13 and 14 per mille, which occasioned a loss of about

£100,000 of the Bank's stock of gold bullion, an amount too trifling to establish the fact of an unfavourable commercial rate of exchange.

With this statement of the actual bearing of the foreign exchanges upon the gold currency of the country, it may perhaps excite some surprise as to the mode in which the large reduction in the bullion held by the Bank was effected, and which in its consequences, from that body having been governed by the principle laid down in the evidence of 1832, ought to have had the same effect upon the general currency of the empire, as if the reduction had been occasioned by any cause other than that from which it is believed to have arisen. The principle referred to was stated to be the retention, so far as practicable, of a fixed amount of securities; and in proof of such having been the course pursued, the following account will shew that the securities which stood at about twenty-four millions and a quarter in October 1833, upon an average of the three preceding months, did not subsequently exceed that amount until the recent pressure commenced upon the money-market, which was further increased by the discredit in Ireland causing a demand upon the Bank, direct and indirect, for nearly a million of sovereigns.

The securities in possession of the Bank, excluding those held temporarily with the extra deposits, were upon the average of the quarters ending

| | | |
|---|---|---|
| 1833.—1st October | | £24,200,000 |
| ,, | 31st December | 23,600,000 |
| 1834.—1st April | | 23,500,000 |
| ,, | 1st July | 22,600,000 |
| ,, | 30th September | 24,900,000* |
| ,, | 30th December | 23,400,000 |
| 1835.—31st March | | 25,100,000* |
| ,, | 30th June | 23,800,000 |
| ,, | 29th September | 22,900,000 |
| ,, | 29th December | 22,000,000 |
| 1836.—29th March | | 24,000,000 |
| ,, | 28th June | 22,600,000 |
| ,, | 27th September | 24,800,000 |
| ,, | 27th December | 25,000,000 |

The publication of the liabilities and assets of the Bank in January, and those which will follow in February, will shew a further increase of securities (excluding those appertaining to the extra deposits), and according to the principle laid down in the evidence referred to, the rate of interest

* The excess in these two quarters was occasioned by an increase in the deficiency Bills.

ought to have been advanced by the Bank in order to throw back that excess upon the market. It is submitted, however, that we have not been placed in ordinary circumstances since the discredit which occurred in Ireland. In consequence of that event there was in the first instance an undue return of Bank of England notes for coin, and secondly, it is believed that in this country, from apprehension of consequences, a much larger amount of Bank-notes has been and still is retained in reserve by bankers generally, than they are ordinarily in the habit of holding. At any rate it is evident that the additional issue by the Bank has not caused any foreign demand for gold,* and unless that be exhibited, the Bank ought not, under circumstances of an unnatural pressure, strictly to enforce the principle laid down. In thus offering an individual opinion, the writer does not presume to say what course the Bank may either now or hereafter feel it to be a matter of obligation to adopt. We must keep in mind that England is the centre of the whole commerce of Europe and America, if not the world,

* No foreign demand or export of gold, deserving of notice, has taken place since 1st September last.

and any hasty or unnecessary step taken, will not only affect the credit and prices of this country, but to a certain degree those of all parts of the Continent, from whence we are to obtain that bullion which we have lost. The causes of that loss, so seriously affecting the credit and commercial transactions of the country, demands the closest investigation. The fall in price of almost all the leading articles of raw produce (sugar, coffee, tea, silk, cotton, piece goods, metals, drugs, &c.) from the 1st July last, when the rate of interest was first advanced, has not been less than from 20 to 30 per cent.

The securities published in the Gazette read higher than the amounts stated in the preceding paragraph, in consequence of the extra deposits placed *temporarily* with the Bank either by Government or the East-India Company; but these, as already explained, were advanced, under peculiar circumstances, in a way to insure their return at such times as the Government or the East-India Company might require the money.*

* The average extra deposits in possession of the Bank on the 27th December last were about 4½ millions, which were

Allusion has already been made to the effect upon the currency from a deranged state of commercial prices between this and foreign countries. It must be evident to every one reflecting upon the subject, that similar effects may be produced by employing capital in speculative loans to foreign powers or investing it abroad at a higher rate of interest than the securities of this country may afford. This, it is obvious, may occasion large and sudden foreign payments without any reference to the exchanges. And it is to payments of that character that we may attribute the loss of bullion which took place from October 1833, to April 1835, and to which the public attention should be directed, that remedies may be devised for mitigating the evil, which must otherwise attend similar transactions hereafter.

Notwithstanding the cry of distress which has from time to time prevailed for some years past, it is notorious that the capital of individuals, at least in every manufacturing and commercial department,

lent upon securities redeemable in January of this year, when the East-India Company required their funds to meet the bills drawn from India then falling due.

has been and still is steadily upon the increase. The evidence of that advance is seen not only in every town throughout the kingdom, but we are also daily witnessing the extension of every branch of commerce and manufactures, which can only be attributed to the constantly growing capital of the country. Without meaning to impugn the statements, which have been put forward, or doubting the severe pressure, which has existed, and in some cases may still exist in adjusting the relative position between landlord and tenant, or the heavy depreciation which has taken place, since the close of the last war, in the value of all property vested in shipping, it is extremely questionable whether in both those cases, hard as it may have been upon the parties directly interested in them, the pressure has not been wholly irremediable. It originated in the altered circumstances of the country subsequently to the peace of 1815, and could not be prevented by any legislative measures.

Assuming, therefore, that a great increase of capital is continually going forward, it is but reasonable to expect that a portion of that accumulation should seek investment in foreign secu-

rities from the higher rate of interest that they afford over those of our own country. The facilities of making such investments began with the peace of 1815, when the system of foreign loans contracted and made negociable in London commenced. That system has been extended to almost every state both of Europe and America, nor does it appear to have been attended by any prejudicial effects when not subject to excessive speculation. On the contrary, looking to the constant accumulation of capital, such contracts as offer opportunities for gradual and moderate investments have proved beneficial to the commerce of the country, the amounts having in such cases been generally transmitted either in colonial produce or manufactures. It is not therefore the ordinary investments in foreign securities which are open to objection, but that speculative action so greatly facilitated by our foreign stock-market in the establishment of a system of gambling ten times more prejudicial to the interests of the country, than that which has for years past existed in the dealings in our own funded debt. In the first the receipt or payment becomes, not unfrequently, one of foreign settlement, thereby directly acting upon our currency.

The second almost exclusively attaches to English residents, and the balance is consequently finally adjusted at the clearing-house in Lombard-street.

The speculative action here alluded to, and pertaining to the present enquiry, originated in the loans to Don Pedro upon his first attempt to recover the throne of Portugal. The money advanced effected the overthrow of Don Miguel, and upon that overthrow followed the speculative mania in the foreign stock-market. More loans were contracted in aid of Donna Maria, and provided the contractors could only secure their agency and commission, the public were left to take care of themselves. The rage for speculation being further excited by the popular idea of overthrowing absolutism and establishing liberal Governments throughout the Peninsula, Spain came in for her share of the plunder obtained through English credulity. These loans were going forward from July, 1833, until towards the end of 1834, when the profit realized upon the daily extending engagements in the Foreign Stock-market engendered a further spirit of speculation in almost every kind of previously neglected South American, Spanish, and Portuguese bonds, causing an enormous advance

in all, and in some nearly 100 per cent. In short, until the spring of 1835 hardly a packet arrived from the continent which did not come loaded with every sort of foreign securities for realization upon our Foreign Stock-Exchange. During that period, and through the means here referred to, the bullion and coin held by the Bank in October, 1833, was reduced by the sum of £5,100,000, effected by £2,900,000 silver sold, and £2,200,000 sovereigns exported. It may perhaps be maintained that the sale of silver by the Bank was the means of preventing a further export of gold, that otherwise would have taken place, and that there is no proof of the export of bullion having been occasioned by the operations upon the Foreign Stock-market. In reply it may be stated that not only the demand for the silver and export of the sovereigns originated and continued during the mania alluded to, but further, that that demand ceased the moment the reaction took place in May, 1835, when a panic seized the dealers in foreign securities, causing their prices to fall with far greater rapidity than they had risen. In the progress of the contraction, which ensued upon the diminution of the

bullion held by the Bank, the market rate of interest gradually advanced for first-rate commercial paper from $2\frac{1}{2}$ to $3\frac{1}{2}$ per cent. per annum, which may be quoted as having been its value in May, 1835; at that time there was no material increase in the paper-money circulation of the interior, consequently, immediately upon the discredit taking place, the export of gold ceased and the foreign exchanges further advanced, bringing back the major part of the gold which had been exported in the preceding eighteen months, thereby clearly shewing that the currency was not redundant.

The reduction which took place in the bullion of the Bank from April to September last is that to which it is now necessary to advert. The diminution amounted to £2,600,000, and was effected in the following manner:—

£200,000 amount of Silver sold.
100,000 „ Gold do.
2,300,000 „ Sovereigns, supposed to have been exported to America.

In order to explain the cause and origin of the American demand, it may be proper to advert to the proceedings in America for the two preceding years.

The avowed hostility of the President, Jackson, to the renewal of the Charter of the Bank of the United States terminated, after a violent struggle, in compelling that Institution to prepare for closing all its transactions in 1836, and for repaying that portion of its capital that belonged to Government. In order, however, to increase the embarrassment of the Bank, measures were taken for removing from its custody the deposits of public money, and for placing them in the hands of various States' Banks, under condition that they should be prepared to pay a given portion of all demands upon them in *gold coin.* To facilitate this object, Congress passed a law reducing the quantity of fine gold in the Eagle, the equivalent of ten dollars, from 246 to 232 grains. This depreciation of the American gold coin had the effect of raising the current value of the English sovereign from 4.44 dollars to 4.87½, or 8½ per cent. above its previous current value. Simultaneously with and in aid of these measures several of the States were persuaded to prohibit the circulation of notes of less amount than five dollars. In taking these measures it was an avowed object on the part of the President to endeavour to establish a gold currency in conjunction with silver throughout the Union. The hostility

evinced towards the Bank of the United States, and the refusal to renew its Charter caused an immediate contraction of the usual accommodation granted at the numerous branches of that Establishment, and further, entailed upon the favoured States' Banks the necessity of procuring an additional supply of gold to enable them to fulfil the conditions under which they received the deposits of Government money. This combination of circumstances, having no relation to the ordinary commercial transactions existing between this country and America, materially reduced the rate of exchanges with Europe, so much so as to afford a profit upon the importation both of gold and silver from England and other parts of Europe. The President, too, in order further to aid his favourite project of increasing the metallic currency throughout the States, directed, in the early part of last year, his agents in Europe to remit in gold to America the whole of the indemnity money to be received from France and Naples. About the time of that remittance having been made, a loan for a million or twelve hundred thousand pounds was negociated in London on account of the United States' Bank to facilitate the settlements upon the expiration of the Charter. The effect of

that loan upon the currency of this country was further increased by a much larger amount than usual of American securities, or of States' stock, bank and canal stock, &c. having been sent to Europe for sale, and upon which credit had been given by some of the principal houses in England in anticipation of the sums they were expected to realize, thus throwing an inordinate amount of American paper upon our markets. If all these circumstances be adverted to, together with the very large amount of produce imported from America, the surprize will be, not that some, but that so small a portion of bullion should have been abstracted from England as that already stated. Since the 1st September last the demand has entirely ceased, and notwithstanding the desire of the American President to retain the bullion acquired from this country, it is not improbable that we may soon see it return from that quarter of the world.

Having thus endeavoured to explain the causes which have operated to reduce the bullion of the Bank during the last three years, it becomes desirable to shew why it is that the contraction of the circulation of the Bank has affected private

credit more than in 1832, when a similar loss of bullion and contraction of the Bank's engagements were exhibited. The difference between the two periods appears to have been occasioned by the altered state of private banking in the interior of the country. In the first, there was no particular excitement either in England or Ireland, nor any excess in the issues of provincial paper. In the second, both countries teemed with competition created by the additional establishment, as previously stated, within the short space of two years, of not less than seventy-two Joint-Stock Banks in England and Wales, and ten in Ireland, with their innumerable branches in almost every town throughout the two kingdoms. It is needless to attempt to describe the competition that grew out of this excessive multiplication of banks: its effects were exhibited in a great and undue, and even rash extension of paper-money and credits, accompanied by an unusual reduction in the rate of interest in the interior of both countries, but particularly in Ireland: the commonest observer must have seen the gathering clouds, and dreaded the consequences.

These circumstances at length attracted the attention of Parliament. The volume of evidence, taken

before a Committee of the House of Commons, and published since the close of the last session, must satisfy every unprejudiced mind of the danger attending the continuance of such a system. Suffice it here to say, that the influence which should have attended the contraction of Bank of England paper arising from the export of bullion, was counteracted by the imprudent facilities of credit and cheapness of money occasioned by the proceedings of the Issuing Banks in the interior of England and Ireland. Upon the publication in the Gazette of the issues of the Joint-Stock and private banks of England and Wales in the early part of last July, an increase of 25 per cent. of their issues was exhibited, above the amount existing in March 1834, while the circulation of the Bank of England had been diminished nearly to the same extent. The increase in the issues of the Joint-Stock Banks of Ireland, though not published, has since been ascertained to have greatly exceeded in proportion that exhibited in this country.

In order more clearly to explain the nature of the reduction in the circulation of the Bank of England, it should be stated that a considerable proportion of what are termed deposits in the Bank accounts ought to be considered as part of the

Bank-notes issued, being no other than notes waiting a demand for employment, and belonging to London bankers and others. Whether, therefore, these notes remain for a time in the possession of the Bank, or whether they remain in the possession of the parties to whom they belong, is really the same thing, the only difference being in the mode of stating the account. As nearly as can be ascertained the amount of deposits coming under the description here alluded to, may vary from three to four millions. But we are not, as has sometimes been done, to confound this portion of the deposits with the other and much larger portion that is lodged with the Bank for security only, and without being intended to be speedily withdrawn or to be operated on by checks or otherwise. To contend that this portion of the deposits should be considered as currency is equivalent to contending that the bills and bonds belonging to individuals and locked up in their strong box are part and parcel of the circulation. They may be money *in posse*, but they are not money *in esse*, and have no more influence over the currency than the gold or silver buried in the bowels of Mexico. But to return :—

Adverting to the excess of the country issues, and looking to the race running with increased violence in Ireland as well as England, the Bank was fully justified in attempting to arrest the evil which might attend a continuance of the export of bullion from the redundancy of money, by making an advance in the rate of interest in London and at the Branch Banks. In fact, the only question about which there can be any real difficulty is whether she ought not to have taken this step somewhat earlier. To have acted, however, in anticipation of events likely to occur, would have been in direct violation of that principle upon which the Bank professed to be guided, and which Parliament had tacitly sanctioned. It would moreover have established a precedent and imposed future responsibilities upon the Directors, which it is questionable whether they should ever incur, either upon their own account or that of the public. The Bank acted precisely as any Board of Commissioners empowered solely to issue notes for bullion would have done, and can in no way be chargeable with the consequences.

The large amount of money deposited at interest with the Bank by the East-India Company for a

limited period, and which was lent to the money-dealers in London, afforded considerable facilities for rendering the rise in the rate of interest immediately effective; the object was not one of profit to the Bank, but to enforce that contraction and to establish that general rate of interest, which, but for the undue increase of the issues of the Joint-Stock Banks and others in England and Ireland, should have followed the export of bullion. The course thus taken by the Bank was, in the first instance, counteracted by the other issuers of paper-money in England, Ireland, and Scotland. The demand for bullion continuing, the Bank further advanced the rate of interest in August to £5 per cent. per annum, which forced additional securities upon many of those country-banks that adhered to a lower rate. Their surplus funds in London being soon absorbed, they all eventually adopted the rate of interest established in London. There was, however, an effect created by this act on the part of the Bank far more powerful than the actual advance in the value of money. It was a moral apprehension in all prudent minds that there was mischief abroad; and those who had been promoting and applauding the action of the Joint-Stock Banks began to doubt

the solidity of the system. The feeling so created was probably further extended by the publication of the evidence already alluded to. The consequence of this altered state of confidence was first shewn in Ireland, where the competition had assumed a more violent character than in England; a run upon all the Joint-Stock Banks in that part of the Empire ensued, which terminated in the stoppage of the Agricultural. The direct effect of that discredit upon the Irish banks was an immediate drain upon the Bank of England and its branches of nearly one million of sovereigns, obtained by the return of notes to that amount. None of these banks having been previously provided with coin or the direct means of obtaining it, the only mode of getting possession of it was by forced sales of securities in London. A moment's reflection will shew the derangement in the London circulation, necessarily consequent on such proceedings, as well as the difficulty under which the Bank is placed by the total want of coin or bank-notes on the part of issuing banks, to uphold the credit of their circulation. It may be assumed as a fact that profit is their only object, and that not a single issuing bank in England, Ireland, or *even Scotland* has ever

been provided with bank-notes or coin adequate to meet a demand upon their respective liabilities. Their assets beyond the ordinary wants of their customers are *all* vested in securities bearing interest, trusting to the realization of those securities in bank-notes in case of need, which, thus abstracted from the public market, either inflicts a most inconvenient pressure upon London, or, in order to prevent that pressure, the Bank is required to re-issue the amount of notes, so cancelled, without reference to the bullion in its possession. It is perfectly immaterial whether banks of issue retain their just proportion of reserves in Bank of England notes or coin, but one or the other it is submitted that they ought to be compelled to retain with reference to their liabilities, or to abandon the issue of notes, the upholding of which, under discredit, becomes a source of difficulty and danger to the public at large, as well as to the Bank of England. In the late instance the discredit fortunately extended no farther than Ireland, but the apprehension of what might ensue in England occasioned a considerable abstraction of bank paper from London by the issuing banks of the country, which to that extent so far encreased the pressure

of contraction—and was the principal cause of the pressure upon the money-market, which is the first head of the present enquiry. In such times it is not only the contraction of money which constitutes the evil, but the consequence which invariably ensues of timidity on the part of bankers generally, to grant their customary accommodation, and of those situated in the more distant parts of the country accumulating and locking up reserves three or four times greater than they retain under ordinary circumstances.

Much has been said and written by parties connected with a portion of the daily press as to the impossibility of maintaining a paper-money circulation convertible into gold coin of a given standard. There is no intention of entering at present upon the discussion as to whether silver or gold would originally have been the better metal to adopt as our standard of value. Gold was determined upon, and that is the only question we have now to deal with. It may be true, though there is no evidence of the fact, that gold fluctuates more in value than silver; but there does not appear to be any difficulty in maintaining it as our standard, subject at times to some temporary inconvenience in rela-

tion to the currencies of other countries, provided the issue of paper-money be duly regulated. Under the system which now exists, embracing a total amount of bank-paper circulation in Great Britain and Ireland of about forty-five millions, the half of which may be assumed to be unprotected by an adequate reserve of either Bank of England notes or coin, it certainly is impossible to insure the convertibility of paper even for foreign payment; nothing can guard against the effects of mismanagement and consequent excess by such a numerous mass of issuing bodies as overspread the empire. If, however, the amount of paper-money be limited, and it be issued by one body, with an adequate reserve of bullion expanding and contracting as the currency may fluctuate in value with reference to foreign countries, there could be no difficulty in preserving it against depreciation for all purposes of foreign payment. If paper-money ever become discredited by any internal political convulsion, it can then only be upheld by the power of Government—and in such times it becomes the duty of the Ministers of the Crown to undertake the responsibility of upholding public credit. For relief against commercial discredit the issuing body

should be so formed as to be able to afford protection.

With reference to the past action of the Bank there is no reason to doubt that the value of the currency would have been maintained without occasioning any severe pressure upon the money-market had the countervailing issues by other bodies not occurred; still if there exist any well-founded reasons for supposing that the principle explained in the evidence of 1832, and acted upon by the Bank, is not sound—or that the proportion of one-third of bullion with reference to the liabilities of the Bank at the period of a full currency be not sufficient, it merely remains for Parliament to express an opinion upon either of those points, and there can be no question but that the Bank will immediately regulate its course accordingly. The principle referred to was never intended to apply under any extraordinary events that might arise. In such times it would become the duty of the Bank to reduce their securities without delay, and thus to increase the relative proportion of bullion to their liabilities prior to the commencement of a foreign demand, which in such altered state of circumstances might be expected to occur.

Having thus endeavoured to show the rise and progress of the contraction in the circulation of the Bank of England, which has terminated in the pressure upon the money-market, it remains to be considered what are the consequences likely hereafter to ensue from a continuance of the present system.

Assuming that the main cause of the pressure was occasioned by the counteracting effect of the issues by other bodies, promoted in no common degree by the inordinate multiplication and competition of the Joint-Stock Banks throughout England and Ireland, it may be worth while to allude to what may be supposed to have led to the opinions formed in 1825 by the Government of that day in favour of those institutions.

The consideration of the Joint-Stock system had been, for some time prior to the year 1825, forced upon public attention by the many failures which had taken place subsequently to 1810 in private banking establishments, amounting to more than one hundred and fifty: and as about eighty private banks suspended their payments in 1825, the Government thought themselves then called upon

without further delay to endeavour to change the system altogether—a sound system of banking being an object of the highest importance to the whole community. The view taken by Government was strengthened by observing the little comparative derangement sustained by Scotland under the Joint-Stock Banks, by which the monetary concerns of that part of the kingdom have been almost exclusively conducted. Looking to that country as an example, it was perhaps natural to conclude that what afforded evidence of advantage in one part of the kingdom would be equally good for all the rest. There is no intention to criticize the Scotch system of banking, but were it narrowly examined, it might not appear so perfect in all its parts as its many warm advocates are inclined to believe. Suffice it to say, that it has produced great benefit to Scotland, which is a sufficient reason for leaving it untouched so long as it commands public confidence.

In precipitating a change in England Ministers seem not to have given sufficient attention to the real causes which occasioned the failures in this country, or the peculiar origin and state of the

banking interest in Scotland. — The evil of the system in England had grown up during the period of the restriction upon cash payments, and especially during the depreciation of the currency from 1810 to 1819, when the issues of paper-money were governed solely by the extent of the demand upon approved securities; and as every bank not having more than six partners had the privilege of issuing notes without limit, it is not to be wondered, while such an unsound principle of issue was generally approved, that banking establishments should have multiplied in all parts of the country merely for the profit to be obtained from their respective paper mints, without paying much, if any, regard to security for the eventual payment of their notes either in paper of the Bank of England or coin. As the period of return to cash payments approached, these ephemeral establishments began to disappear, and the banking business of the interior assumed a more substantial character; the principal evil suffered to remain was the continuance of the privilege to the country banks of issuing one and two-pound notes after they had been withdrawn by the Bank of England. This rendered coin the only means of

upholding that description of circulation; and this coin, in the event of discredit, could only be obtained from the Bank in London.

Such was the state of the provincial banking interest when overtaken by the universal panic of 1825. During that eventful period it is true, as already stated, that nearly eighty private banks suspended their payments; but it is equally true, and perhaps no stronger proof could be afforded of the really substantial state of the country banks at that time, that a very small portion (it is believed not ten) proceeded to bankruptcy. If, therefore, due attention had been given by Lord Liverpool's administration to the causes which occasioned the insolvencies prior to the resumption of cash payments, and a little more time had been taken to inquire into the real state of the country banks in 1825, it is probable that the discredit so unjustly thrown upon the system of private banking in the annexed correspondence would never have been heard of. So far as the opinions then expressed were based upon the example of Scotland, it is maintained that they were founded in error. The two systems were different in origin and principle. That of England had

been formed upon the Bank of England and private establishments precluded by Parliament from embracing more than six partners, while the system of joint-stock banks had ever been the main support of the circulation of Scotland. Both systems existed with equal advantage to the several districts where established—a change in either could only be accomplished by competition endangering the credit and currency of the country.

In making these observations upon what appears to have been an injudicious encouragement given to the formation of Joint-Stock Banks in England, where adequate banking institutions already existed, there is no intention of questioning the propriety of sanctioning such establishments in a country differently situated. Banking is one of the principal means for promoting the prosperity of a nation, and it must consequently always command the vigilant attention of a Government anxious to forward the welfare of the various branches of the community. As a general principle, it may be stated that Joint-Stock Societies are only deserving of encouragement when individual capital and enterprise are found deficient. They are peculiarly applicable to banking business in an early stage of

accumulation of property, and before private credit is extensively created. Such was the case in Scotland at the time when Joint-Stock Banks began to be established in it; such was also the situation of America, and such, too, is now the situation of the Canadas. In the interior of Ireland the first attempt was made to conduct banking business by private capital, supported by the Bank of Ireland, in the same way as in England. The situation of the two countries was, however, widely different, and consequently the private banks of Ireland almost totally failed; which, leaving the field open to other agency, occasioned the formation of Joint-Stock Banks in their place. In all the instances here alluded to, those institutions, if their issues of paper and credits be duly regulated, without which their respective currencies cannot fail to be in a frequent state of inconvenient and even dangerous fluctuation, will continue to prosper; and with their own prosperity will tend to promote the public and private interests dependent upon them.

Adverting, therefore, to the mischief which appears to have attended the uncalled-for encouragement given to Joint-Stock Banks in England, while the advantage of those bodies is admitted in coun-

tries differently situated, it becomes the duty of Government to bring the subject under the consideration of Parliament, and to propose such regulations as may check the unlimited formation of such institutions hereafter, in places where banks already exist, affording every security and accommodation which the district may require. And further, to regulate the future management of those now in existence, in order to guard against a recurrence of that excess in the circulating medium, which on the late occasion neutralized the influence of the contraction of the circulation of the Bank of England, and occasioned a serious, it may be said ruinous, pressure upon the money-market. Unless measures, having those objects in view, be adopted with firmness on the part of the Government, a repetition of the pressure will no doubt recur with increased violence. Earl Spencer, when Chancellor of the Exchequer, was fully aware of the danger to be apprehended from the present system; and the attempt made by his Lordship at the time of the renewal of the Bank Charter to establish regulations for the conduct of Joint-Stock Banks of Issue, sufficiently proves that at least one member of Government was convinced of the

necessity of protection being afforded to the public against its abuse. So dangerous does the system appear, *as it now stands*, that it becomes questionable whether the Bank of England and the bodies in question can *permanently exist together*.

If Ministers be disposed to bring forward remedial measures, the state of the foreign stock-market should not be overlooked. It may perhaps be difficult to put any effectual check upon speculative and time-bargains in foreign securities, but there can be no reason why they should not be declared illegal, and penalties imposed upon such transactions. And further, while the transfer of almost every species of property in Great Britain (with the exception of the public debt) is subject to a duty, it is but equitable that every contract or bargain made for passing foreign securities should be chargeable with a stamp-duty, and be liable to heavy penalties for evasion. The Government of France were long since apprised of the dangerous consequences of the time-bargains upon the Bourse at Paris, and have avoided them by regulations which tend almost effectually to put them down.

In submitting the foregoing facts and observations for public consideration, the writer, though

intimately connected with the management of the Bank of England, has no intention to claim any undue portion of credit or to evade his fair share of the responsibility for the proceedings of that body. The Bank has endeavoured to pursue, in difficult times and amid conflicting interests, a steady course, regardless of the abuse put forth by certain writers in the daily press, whose ignorance or wilful misrepresentation would be unworthy of notice, except for its influence over a portion of the public unacquainted with such subjects. Whether the Bank of England, as now constituted, be the establishment most capable of upholding public and private credit, or whether its sphere of action should be extended or contracted, are public questions. The interest of the public only is to be considered; and decisions taken in that view, and with a full knowledge of all the facts and principles bearing upon such complicated and difficult subjects, will be sure to meet with the concurrence of every individual connected with the Bank, as they ought to do with that of every well-wisher to his country.

---

P.S.—Since the foregoing was written, a Letter

has been published, addressed by Colonel Torrens to Lord Melbourne. The conclusions having been drawn from erroneous premises, they are not deserving of much notice. It may be sufficient to state that the average amount of the circulation of the Bank on the 28th December, 1833, was £18,200,000, and not £17,469,000, as stated in the Letter; and further, that the conclusions ought to have had reference to the period when the drain of bullion commenced—the 1st October, 1833, when the average circulation was £19,800,000, and the bullion £10,900,000. With respect to the observations made upon the deposits of the Bank, it is evident that Colonel Torrens does not understand the nature of that portion of them which bears the character of Circulation. Having already said every thing which appears requisite by way of explanation upon that subject in the present tract, it is unnecessary to offer any further observations upon it.

*Copy of the communications from the Treasury to the Bank of England in the year* 1826, *and of the Answer of the Bank thereto, relating to the provisions of the Bill, then in progress through Parliament, for the Regulation of Banking Companies in England.*

At a Court of Directors at the Bank, Friday, 20th January, 1826.

The Governor laid before the Court the following Letter from the First Lord of the Treasury and the Chancellor of the Exchequer, with the Paper therein referred to, viz.:—

"*Fife-House,*
"13*th January,* 1826.

"GENTLEMEN,

"We have the honor of transmitting to you herewith a "paper containing our views upon the present state of the "Banking system of this Country, with our suggestions there-"upon, which we request you will lay before the Court of "Directors of the Bank of England for their consideration.

"We have the honor, &c.

(Signed) "LIVERPOOL,
"FRED. JOHN ROBINSON."

"*To the Governor and Deputy-Governor*
"*of the Bank of England.*"

" The Panic in the money-market having subsided, and the pecuniary transactions of the country having reverted to their accustomed course, it becomes important to lose no time in considering whether any measures can be adopted to prevent the recurrence in future of such evils as we have recently experienced.

" However much the recent distress may have been aggravated in the judgment of some by incidental circumstances and particular measures, there can be no doubt that the principal source of it is to be found in the rash spirit of speculation which has pervaded the country for some time, supported, fostered, and encouraged by the Country Banks.

" The remedy therefore for this evil in future must be found in an improvement in the circulation of country-paper; and the first measure which has suggested itself to most of those who have considered the subject, is a recurrence to a gold circulation throughout the country, as well as in the metropolis and its neighbourhood, by a repeal of the Act which permits Country Banks to issue One and Two Pound notes until the year 1833, and by the immediate enactment of a prohibition of any such issues at the expiration of two or three years from the present period.

" It appears to us to be quite clear that such a measure would be productive of much good; that it would operate as some check upon the spirit of speculation and upon the issues of Country Banks; and whilst, on the one hand, it would diminish the pressure upon the Bank and the metropolis, incident to an unfavourable state of the exchanges, by spreading it over a wider surface, on the other hand it would cause such pressure to be earlier felt, and thereby insure an earlier and more general adoption of the precautionary measures necessary for counteracting the inconveniences incident to an export of the precious metals. But though a recurrence to a gold circulation in the country, for the reasons already stated, might be productive of some good, it would by no means go to the root of the evil.

" We have abundant proof of the truth of this position in the events which took place in the spring of 1793, when a convulsion occurred in the money-transactions and circulation of the country more extensive than that which we have recently experienced. At that period nearly a hundred Country Banks were obliged to stop payment, and Parliament was induced to grant an issue of Exchequer-Bills to relieve the distress; yet in the year 1793 there were no One or Two Pound notes in circulation in England either by Country Banks or by the Bank of England.

" We have a further proof of the truth of what has been advanced in the experience of Scotland, which has escaped all the convulsions which have occurred in the money-market of England for the last thirty-five years, though Scotland during the whole of that time has had a circulation of One Pound notes; and the small pecuniary transactions of that part of the United Kingdom have been carried on exclusively by the means of such notes.

" The issue of small notes, though it be an aggravation, cannot therefore be the sole, or even the main cause of the evil in England.

" The failures which have occurred in England, unaccompanied as they have been by the same occurrences in Scotland, tend to prove that there must have been an unsolid and delusive system of banking in one part of Great Britain, and a solid and substantial one in the other.

" It would be entirely at variance with our deliberate opinion, not to do full justice to the Bank of England as the great centre of circulation and commercial credit.

" We believe that much of the prosperity of the country for the last century is to be ascribed to the general wisdom, justice, and fairness of all its dealings;—and we further think that during a great part of that time it may have been *in itself* and *by itself* fully equal to all the important duties and operations confided to

it; but the progress of the country during the last thirty or forty years in every branch of industry, in agriculture, manufactures, commerce, and navigation, has been so rapid and extensive, as to make it no reflection upon the Bank of England to say that *the instrument* which *by itself* was fully adequate to former transactions, is no longer sufficient without new aids to meet the demands of the present times.

"We have to a considerable degree, the proof of this position in the very establishment of so many Country Banks.

"Within the memory of many living, and even of some of those now engaged in public affairs, there were no Country Banks except in a few of the great commercial towns.

"The money transactions of the country were carried on by supplies of coin and bank-notes from London.

"The extent of the business of the country and the improvement made from time to time in the mode of conducting our increased commercial transactions, founded on pecuniary credit, rendered such a system no longer adequate, and Country Banks must have arisen, as in fact they did arise, from the increased wealth and *new wants* of the country.

"The matter of regret is, not that Country Banks have been suffered to exist, but that they have been suffered so long to exist without controul or limitation, or without the adoption of provisions calculated to counteract the evils resulting from their improvidence or excess.

"It would be vain to suppose that we could now by any act of the Legislature extinguish the existing Country Banks, even if it were desirable, but it may be within our power gradually at least to establish a sound system of banking throughout the country, and if such a system could be formed, there can be little doubt that it would ultimately extinguish and absorb all that is objectionable and dangerous in the present banking establishments.

"There appear to be two modes of attaining this object.

" First—That the Bank of England should establish branches of its own body in different parts of the country.

" Secondly—That the Bank of England should give up its exclusive privilege as to the number of partners engaged in banking, except within a certain distance of the metropolis.

" It has always appeared to us, that it would have been very desirable that the Bank should have tried the first of these plans —that of establishing Branch Banks upon a limited scale.

" But we are not insensible to the difficulties which would have attended such an experiment, and we are quite satisfied that it would be impossible for the Bank under present circumstances to carry into execution such a system to the extent necessary for providing for the wants of the country.

" There remains therefore only the other plan—the surrender by the Bank of their exclusive privilege as to the number of partners beyond a certain distance from the metropolis.

" The effect of such a measure would be the gradual establishment of extensive and respectable banks in different parts of the country, some perhaps with charters from the Crown, under certain qualifications, and some without.

" Here we have again the advantage of the experience of Scotland.

" In England there are said to be between eight and nine hundred Country-Banks, and it is no exaggeration to suppose that a great proportion of them have not been conducted with a due attention to those precautions which are necessary for the safety of all banking establishments, even where their property is more ample. When such banks stop, their creditors may ultimately be paid the whole of their demands, but the delay and shock to credit may in the meantime involve them in the same difficulty, and is always attended with the greatest injury and suffering in the districts where such stoppages occur. If this be the case

where the solidity of the bank is unquestionable, what must it be, as too often happens, when they rest on no solid foundation?

"In Scotland there are not more than thirty banks, and these banks have stood firm amidst all the convulsions in the money-market in England, and amidst all the distresses to which the manufacturing and agricultural interests in Scotland as well as in England have occasionally been subject.

"Banks of this description must necessarily be conducted upon the general, understood, and approved principles of banking.

"Individuals are from the nature of the institutions precluded from speculating in the manner in which persons engaged in Country and even London Banks speculate in England.

"If the concerns of the country could be carried on without any other bank than the Bank of England, there might be some reason for not interfering with their exclusive privileges; but the effect of the law at present is to permit every description of banking, *except that* which is *solid* and *secure*.

"Let the Bank of England reflect on the dangers to which it has been recently subject, and let its Directors and Proprietors then say, whether for their own interest such an improvement as is suggested in the banking system is not desirable and even necessary.

"The Bank of England may, perhaps, propose, as they did upon a former occasion, the extension of the term of their exclusive privileges as to the metropolis and its neighbourhood beyond the year 1833, as the price of their concession.

"It would be very much to be regretted that they should require any such condition.

"It is clear that in point of security, they would gain by the concession proposed to them, inasmuch as their own safety is now necessarily endangered by all such convulsions in the country circulation as we have lately and formerly witnessed.

" In point of profit, would they lose anything by it for which they are entitled to demand compensation?

" It is notorious that at the present time their Notes circulate in no part of England beyond the metropolis and its neighbourhood, except in Lancashire, and perhaps for that district some special provision might be made.

" But as it is the interest, so it has been and ever will be the endeavour of the Country Banks to keep the Bank of England Notes out of circulation in those parts of the kingdom where their own circulation prevails. In this they must always be successful whilst public credit continues in its ordinary state and the exchanges not unfavourable to this country. The consequences are, that in such times the Bank of England becomes in a manner the sole depositary for gold, and in times of an opposite tendency the sole resort for obtaining it: that at one period their legitimate profit is curtailed by an accumulation of treasure beyond what would be required by a due attention to their own and private safety as a Banking Establishment; and at another period they are exposed to demands which endanger that safety and baffle all the ordinary calculations of foresight and prudence.

" If then the Bank of England has no country circulation, except in the county above-named, the only question for them to consider is, whether on the ground of profit as well as security to themselves, the existing country circulation shall or shall not be improved.

" With respect to the extension of the term of their exclusive privileges in the metropolis and its neighbourhood, it is obvious from what passed before, that Parliament will never agree to it.

" Such privileges are out of fashion, and what expectation can the Bank under present circumstances entertain that theirs will be renewed. But there is no reason why the Bank of England should look at this consequence with dismay. They will remain a chartered corporation for carrying on the business of banking.

In that character they will, we trust, always continue to be the sole Bankers of the State; and with these advantages, so long as they conduct their affairs wisely and prudently, they always must be the great centre of banking and circulation.

" Theirs is the only establishment at which the dividends due to the public creditor can by law be paid.

" It is to be hoped, therefore, that the Bank will make no difficulty in giving up their exclusive privileges, in respect to the number of partners engaged in banking as to any district miles from the metropolis.

" Should the Bank be disposed to consent to a measure of this nature in time to enable the Government to announce such a concession at the opening of Parliament, it would afford great facilities to the arrangement which they may have to propose for insuring the stability of private credit on which the support of public credit and the maintenance of public prosperity is materially and closely involved."

---

The Court having taken into consideration the important paper received from the First Lord of the Treasury and the Chancellor of the Exchequer,

RESOLVED,

That, however essentially they may differ on certain views and sentiments therein laid down and expressed, it is not for the Court, at the present moment, to offer any opinions of their own, the paper appearing to be intended as declaratory of the grounds on which His Majesty's Ministers have come to the determination to require the Bank to give up its exclusive privilege as to the

number of partners engaged in banking, except within a certain distance of the metropolis.

It cannot, however, be considered inconsistent with this forbearance to state the apprehensions of the Court of Directors, that confidence is not so fully restored as Lord Liverpool and the Chancellor of the Exchequer seem to imagine.

Though the Panic has subsided, credit, both public and private, remains in a very uncertain and anxious state.

That the country circulation is in many parts extremely defective cannot be controverted, and the Bank would very reluctantly oppose itself to any measures tending to ameliorate it, but would be glad to promote that object either by fresh exertions on their part, should such be found applicable, or by any reasonable sacrifice.

Under the uncertainty in which the Court of Directors find themselves with respect to the details of the plans of Government, and the effect which they may have on the interests of the Bank, this Court cannot feel themselves justified in recommending to their proprietors to give up the privilege which they now enjoy, sanctioned and confirmed as it is by the solemn Acts of the Legislature.

---

At a Court of Directors at the Bank, on Wednesday, 25th January, 1826.

The Governor laid before the Court the following paper from the First Lord of the Treasury and the Chancellor of the Exchequer, viz.:—

"The First Lord of the Treasury and the Chancellor of the

" Exchequer have duly considered the answer of the Bank, of " the 20th inst.

" They cannot but regret that the Court of Directors should " have declined to recommend to the Court of Proprietors, the " consideration of the paper delivered by the First Lord of the " Treasury and the Chancellor of the Exchequer to the Governor " and Deputy Governor of the Bank, on the 13th inst.

" The statement contained in that paper appears to the First " Lord of the Treasury and the Chancellor of the Exchequer so " full and explicit on all the points to which it relates, that they " have nothing further to add—although they would have been, as " they still are, ready to answer, as far as possible, any specific " questions which might be put for the purpose of removing

> " ' the uncertainty in which the Court of Directors
> " ' state themselves to be with respect to the details of
> " ' the plan suggested in that paper.'

" After all, the simple question for the Bank to consider is, " whether they are willing to relinquish their exclusive privilege " as to the number of partners engaged in banking, at a certain " distance from the metropolis.

" The First Lord of the Treasury and the Chancellor of the " Exchequer are satisfied that the profits of the Bank would in " no degree be affected by their consenting to such a proposal. " Convinced of this, and that its adoption by the Bank is as im- " portant to their own security as to that of the public, it does not " appear that the Bank can be equitably entitled to claim any " compensation for the surrender of this privilege of their " Charter.

" Against any proposition for such compensation the First Lord " of the Treasury and the Chancellor of the Exchequer formally " protest, but if the Bank should be of opinion that this conces- " sion should be accompanied with other conditions, and that it

" ought not to be made without them, it is for the Bank to bring
" forward such conditions.

" *Fife House,*
" *23rd January*, 1826."

*Thursday, 26th January,* 1826.

The Governor laid before the Court the following minutes of the Committee of Treasury, viz:

" *Committee of Treasury,*
" *25th January,* 1826.

" The Committee of Treasury having taken into consideration " the paper received from the First Lord of the Treasury and the " Chancellor of the Exchequer dated 23rd January, 1826, and " finding that His Majesty's Ministers persevere in their desire to " propose to restrict immediately the exclusive privilege of the " Bank as to the number of partners engaged in banking to a " certain distance from the metropolis, and also, continue to be " of opinion that Parliament would not consent to renew the pri- " vilege at the expiration of the period of their present charter; " finding also that the proposal by the Bank of establishing branch " banks is deemed by His Majesty's Ministers inadequate to the " wants of the country,—are of opinion that it would be desirable " for this Corporation to propose as a basis the Act of the 6 Geo. " IV. cap. 42, which states the conditions on which the Bank of " Ireland relinquished its exclusive privilege, this Corporation " waiving the question of a prolongation of time, although the " Committee cannot agree in the opinion of the First Lord of the " Treasury and the Chancellor of the Exchequer that they are " not making a considerable sacrifice, adverting especially to the " Bank of Ireland remaining in possession of that privilege five " years longer than the Bank of England."

Resolved,

That the foregoing recommendation of the Committee of Treasury be agreed to, and that the Governor and Deputy Governor be requested to lay it before the First Lord of the Treasury and the Chancellor of the Exchequer.

*Tuesday*, 31*st of January*, 1826.

The Governor laid before the Court the following paper from the First Lord of the Treasury and the Chancellor of the Exchequer, viz:

"The First Lord of the Treasury and the Chancellor of the " Exchequer have taken into consideration the paper delivered to " them by the Governor and Deputy Governor of the Bank, on " the 27th inst.

" They think it right to lose no time in expressing their con- " currence in the proposition which has been sanctioned by the " Court of Directors as to the exclusive privilege of the Bank " of England, and are willing to agree that the two clauses in- " serted in the Irish Act of last year, and referred to in the paper " communicated by the Governor and Deputy Governor on the " 27th instant, shall be inserted in the Bill which will be neces- " sary to give effect to the new arrangement.

" The First Lord of the Treasury and the Chancellor of the " Exchequer cannot conclude without adverting to that part of " the paper of the Bank which respects branches of the Bank of " England.

" In their paper of the 13th of January, the First Lord of the " Treasury and the Chancellor of the Exchequer have stated the " reasons why they are of opinion that under all the present " circumstances the establishment of branches of the Bank of " England would not of itself be sufficient to meet all the exigen-

" cies of the country, but they are so far from wishing to dis-
" courage the establishment of such branches that they are
" decidedly of opinion that the formation of them under proper
" regulations would be highly advantageous both to the Bank and
" to the community.

" *Fife House,*
" *28th of January,* 1826."

Resolved,

That this Court is of opinion, after the fullest consideration, that it is advisable to accede to the proposition contained in the papers laid before the Court on the 25th and 26th instant, and this day, and now read, in case the same shall meet with the approbation of the Court of Proprietors.

THE END.

MARCHANT, PRINTER, INGRAM-COURT, FENCHURCH-STREET.